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THE COUNCIL FOR THE
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ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

The Council for the United States and Italy is a private non-profit organization, founded in Venice in 1983 by Gianni Agnelli and David Rockefeller, who served as honorary presidents until 2003. Marco Tronchetti Provera followed them as Chairman, then Sergio Marchionne until 2018. Domenico Siniscalco is the current Chairman, Gianni Riotta Executive Vice Chairman. The Council for the United States and Italy promotes and creates economic relations between Italy and the United States, linking them to Europe, Asia and Africa through knowledge and free trade. Its members are leaders in the economy, industry, finance, technology, services, consulting, law and culture - a team in which economic growth is viewed as promoting humanity and wealth as a cultural value to be shared.

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WEBINAR |The Future of Europe | July 3 @ 5pm

***Paolo Gentiloni**, European Commissioner for Economy; former Prime Minister, Italy*

In this difficult crisis, the European Commission and the European institutions have had an important and unprecedented reaction, having already managed to assert their international weight through the Green New Deal before COVID-19. The pandemic has obviously changed the picture: however, after a difficult start, the European reaction has been consolidated and strengthened. There is every reason for the EU to emerge from this crisis stronger, with significant economic and geopolitical consequences in a world, to quote Pascal Lamy, populated by "carnivores" and no longer by "herbivores".

Despite some encouraging economic data, especially on the activity of SMEs, we are still in a context of uncertainty that affects the whole European and global economic system. The danger is not over and the road is uphill. The reaction to this crisis has been much better and more efficient than the one adopted after the financial crisis: the States have taken decisions, the rules of the SGP have been suspended - putting individual States in a position to intervene powerfully at the fiscal level - and the ECB has reassured the markets with its intervention.

These measures have unleashed very different actions from country to country, limiting the risk of great fragmentation and excessive differentiations between the EU members. Risk awareness was the basis of a spectacular capacity of reaction from Europe: something totally unexpected and unimaginable before the crisis. Now, Europe is able to go on the financial markets as a single actor and raise - by issuing common debt - resources of almost 850 billion (SURE included) in order to face common challenges with common measures.

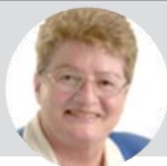
We will see in a few years whether this novelty will be able to lead to structural and profound changes within the EU, or whether it will just be an extraordinary measure taken at an exceptional time. It is very likely that this principle will become irreversible in the coming years. This is very important because in recent years the ECB has asked several times, first with Mario Draghi and then with Christine Lagarde, not to be left alone in the difficult task of avoiding the emergence of excessive asymmetries between states using monetary policy alone: a common fiscal and budgetary policy was and is necessary, and EU's reaction now adopted is an example of this. 750 billion is about five times the budget of the whole EU, so we are talking about significant resources.

Of course, it will be crucial to see how to use these resources under the leadership of the German Presidency in the next months. We are facing common needs, which will be met and addressed with common proposals decided together by all countries. The EU will have to find a balance between the ownership by single nation states for ad hoc measures and the need to act together and collaborate on shared solutions. Money must be therefore addressed towards the great strategic priorities of the Union: digitalization, resilience, and sustainability. These are the keys for a steady recovery on new bases and to introduce, in our economies, modernization, inclusion and new skills to increase competitiveness.

All things considered, despite some differences within it, the response model to the crisis adopted by the EU has also been reproduced by other countries such as the UK. This not only demonstrates its effectiveness, but also bodes well for the future of the Union and its values of transparency, solidarity and freedom, mining support for nationalism, populism, and alternative models of governance like the Chinese. A good omen for Europe in an international context full of geopolitical challenges and uncertainties.

"The Open Secret to Reopening the Economy"

(Project Syndicate, June 23, 2020)



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Areas that eased their initial COVID-19 lockdowns and now have surging infection rates are a testament to all that has gone wrong in the pandemic. The lesson from day one still holds: until the virus is defeated, there can be no return to normal.

WASHINGTON, DC – The future of the world economy is becoming clearer. At the outset of the pandemic, there were lively disagreements over whether the lockdown and other measures were warranted, or whether the economic costs were too high. Now, it is increasingly evident that economic activity will resume fully only after lockdown restrictions have been given time to work. Otherwise, COVID-19 will continue to spread, making a sustained and rapid economic recovery all but impossible until the arrival of effective, widely available vaccines.

When the coronavirus first began to spread beyond China, triggering an immediate, sharp reduction in the level of economic activity and employment where lockdowns were imposed, epidemiologists tried to educate the public (and the authorities, in many cases) about what would come next. They warned that the virus would not be sufficiently contained until its R number –the average number of people infected by a sick person – is less than one. At exactly one, each sick person infects one other, and the number of COVID-19 cases remains constant over time. An R number below one, scientists explained, could be achieved much faster with tighter restrictions and effective testing and contact tracing to isolate positive cases.

In locations where shelter-in-place orders and other measures have been all-encompassing, outbreaks have been stabilized, and the R number has dropped within just two or three weeks. In some places, COVID-19 cases surged exponentially early on, leading to self-quarantine being more common. And because a high percentage of people in hotspots complied with the lockdown recommendations and tracing and testing (likely out of fear), the epidemic curve was quickly dampened.

By contrast, in locations where lockdown restrictions were initially mild or nonexistent, fewer people took steps to avoid contact or prevent transmission of the virus, or were more casual about such precautions, and cases duly increased. To be sure, additional location-specific factors have influenced the spread of COVID-19. But the clear takeaway from around the world is that the scope of lockdown restrictions, and the degree to which they are followed, is the single-most important factor in weathering and then recovering from the pandemic.

Unfortunately, in the United States, in particular, popular resistance to restrictions mounted just when continued public compliance was needed. Some politicians and commentators insisted that the economic costs of saving a life were too high relative to the costs inflicted on those suffering a loss of income or medical care for other conditions. This burst of public pressure won the day. Despite epidemiologists' warnings, the initial lockdown restrictions were relaxed too soon in many US states.

Worse, as soon as these reopenings began, many people returned immediately to their old habits, ignoring recommendations for social distancing, avoiding crowds (especially indoors), wearing a mask, hand washing, and other preventive measures. Factories reopened, and many retail establishments and other services resumed operations, albeit at reduced capacity. For a short time, output and consumer spending rose significantly, and the unemployment rate started falling (though it remained high). But in most cases, these reopenings started with an R number close to or above one, which guaranteed that as soon as people started relaxing precautionary measures, the number of infections would begin to rise again.

The result is a lose-lose scenario. Current conditions are conducive to neither a sustained improvement in economic activity nor a sustained reduction in COVID-19 cases. If health workers, medical equipment, and testing capacity had been available and properly allocated, public-health authorities might have been able to undertake contact tracing and quarantining on a level sufficient to curb the spread of the virus. That is what happened in countries like Germany, New Zealand, and South Korea, as well as in cities like New York, which has gone from being the hardest-hit place in the US to achieving an R number of around 0.4-0.5.

For testing to be effective, results must be provided quickly, to alert carriers of the virus who might otherwise come into contact with others. The problem is that testing materials and equipment have been in short supply, especially in hotspots. Now that the R number is rising at an alarming rate, some US hospitals are already overwhelmed, and, with their workers falling ill, some reopened factories have had to close again. The authorities in highly affected southern and southwestern states are already reversing their earlier relaxation of restrictions and imposing additional ones.

But even in places where people have adhered to precautionary measures and the R number has not risen significantly, the growth rate of consumption has started to decline. Consumers simply cannot be confident that any reopening will be sustained, and businesses see too much uncertainty to commit to longer-term investments. The tragedy is that if the lockdowns had been effective and enforced everywhere, a quick V-shaped recovery would have been entirely possible. But that didn't happen, and now the recent upswing appears to be faltering.

The best hope for the global economy is that everyone will recognize that the epidemiologists were right all along. The premature relaxation has inflicted unnecessary additional costs, both in terms of health and economic wellbeing. Public adherence to restrictions on a scale sufficient to bring R number below one would be the best form of economic stimulus imaginable.

An R number well below one would mean that when restrictions were removed, consumers and businesses could have confidence that the resulting economic (and health) upturn would continue. A return to normal economic and social activity would happen quite rapidly.

The twin goals of defeating the virus and reviving the economy are not contradictory but rather one and the same. The virus will dictate the pace at which we can safely resume economic activity. And it is the public's adherence to preventive measures that will determine the pace at which the virus is defeated.

"A Marshall Plan for Planetary Health"

(Project Syndicate, June 24, 2020)

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The devastating impact of COVID-19 has highlighted the urgent need for ambitious, all-encompassing reforms rather than incremental, piecemeal measures. A global scheme to improve planetary health would constitute a radical new approach, and would be an important step toward safeguarding the future of fast-growing cities.

CAMBRIDGE – The COVID-19 pandemic has heightened awareness of the significant flaws in our urban infrastructure, and highlighted our lack of attention to how human health, natural systems, and the built environment interact to determine planetary health. It is now clear that our economic system increases food insecurity, our streets prioritize motorized traffic over physical exercise, and our houses increase the risk of disease transmission. We can, and must, do better, by launching a bold new investment program for planetary health.

The near-universal focus on health prompted by the pandemic presents an opportunity to mobilize all sectors of society toward embracing proactive approaches to inclusive wellbeing. Building resilient and sustainable systems for health, particularly in the context of cities and urban development, will be key in this regard.

At best, the failure fully to address the adverse implications of today's built environments represents a missed opportunity to enable healthy communities. At worst, it actively contributes to disease risk and transmission. In the United Kingdom, for example, the higher COVID-19 mortality in poor people has illustrated the short-sightedness of housing policies that fail to place health and ecological considerations at their center.

One positive feature of the current crisis has been the rapid adoption of innovative measures (including versions of universal income) to mitigate the pandemic's immediate economic impact. This shows that we can address systemic failures quickly when the will exists.

Likewise, we must radically reimagine our built environments so that they both strengthen the immediate pandemic response and serve as vehicles for improving long-term health. And while cities will be the primary testing ground for reforms to promote health and wellbeing, it will also be necessary to overhaul existing health governance systems.

Although several global philanthropic initiatives have sought to improve urban health and resilience, undoubtedly with positive results, today's flawed systems need more fundamental disruption. Simply put, the world needs a new Marshall Plan for planetary health – akin to a New Deal for a post-pandemic recovery.

Such a scheme would serve as a global guide, aligning incentives and shifting default behaviors toward the shared goal of sustainable healthy urban development. It will require the agreement and participation of national and local governments, private developers, investors, and multilateral organizations, which will take time. Moreover, the initiative would take multiple institutional forms and pathways, some of which may not exist yet.

Governments and private-sector actors will need to address three issues in particular.

For starters, policymakers should not regard resilience only as an end result. Many of the shocks and stressors that drive acute and protracted health emergencies stem from intentional choices by local and global actors. Beyond adaptation to cope with these shocks and stressors, building resilience must therefore involve confronting the decisions that weaken systems by fostering ecological disruption and disease.

In addition, policymakers must tackle the "problem blindness" that results from the temporal and spatial distance between exposure to health risks and subsequent outcomes, especially for diseases with a long arc. For example, there is a disconnect between current urban development and future hospitalizations due to asthma and heart disease, which may be exacerbated by air pollution, exposure to damp environments, and lack of access to safe areas for physical activity. One consequence of problem blindness is attenuated accountability for long-term health.

Finally, policymakers will need to address the "wrong pocket problem," whereby the sector benefiting from an intervention may not be the one that bears the cost of implementing it. This poses a challenge to promoting health through urban development, particularly in the context of siloed public-sector budgets, and will necessitate a redesign of health financing.

Alternatives to the current GDP-based approach to economic development already exist. Bhutan has developed a Gross National Happiness index to guide its policymakers, while the Wellbeing Economy Alliance advocates for a wellbeing-based economic system and is being embraced by the governments of New Zealand, Iceland, Scotland, and Wales. But addressing the three issues noted above will require finance and investment in systems for health.

Here, multilateral development finance institutions (MDFIs), such as the African and Asian Development Banks, could help. As non-commercial organizations that provide capital for economic development projects across a wide range of member states, such institutions are uniquely positioned to drive a Marshall Plan-type scheme.

First, MDFIs have the convening power to bring together heads of member states and private-sector leaders to co-develop and ratify such a plan, while taking regional nuances into account. Second, MDFIs could condition urban infrastructure development loans under the scheme on explicit consideration of a project's health impacts and health-promotion strategies.

Under the plan, lending and borrowing institutions would decide how to mobilize and allocate financial capital on the basis of where the costliest health problems are, and who is best placed to prevent disease. They would also explore creative strategies to encourage intersectoral policies and finance collaborative projects that advance human and planetary health. Such an approach could further catalyze public policy, for example by making the primary performance indicator of urban infrastructure development strategies, policies, and initiatives their contribution to health.

The devastating impact of COVID-19 has highlighted the urgent need for ambitious, all-encompassing reforms rather than incremental, piecemeal measures. A global Marshall Plan for planetary health would constitute a radical new approach, and would be an important step toward health-proofing the future of fast-growing cities. In addition to finance and investment from public and private sectors, it will require a social movement (led by the young) to drive the unremitting demand for a healthy post-COVID recovery, supported by research across the sciences, arts, and humanities. Preventing toxic decisions in urban planning and infrastructure development is essential to reduce vulnerability to disease, lessen the need for health care, and bring about better cities and better health for all.

"Will COVID-19 Kill Cash?"

(Project Syndicate, June 27, 2020)

***Howard Davies**, the first chairman of the United Kingdom's Financial Services Authority (1997-2003), is Chairman of the Royal Bank of Scotland. He was Director of the London School of Economics (2003-11) and served as Deputy Governor of the Bank of England and Director-General of the Confederation of British Industry.*

Reports that the coronavirus could be transmitted by handling cash has given people another reason to steer clear of banknotes. Although untrue, the damage has been done, and a recent survey found that 75% of respondents expect to use cash less in the future.

LONDON – Four years ago, Kenneth Rogoff, a former chief economist of the International Monetary Fund, made a powerful case for phasing out paper money. In his book *The Curse of Cash*, Rogoff argued that much paper money, especially high-denomination banknotes, facilitated tax evasion and fueled the drug trade – all the way down the supply chain: a British study in 1999 found that only four of 500 notes tested in London had no traces of cocaine.

Furthermore, the existence of cash constrains monetary policy. It is harder for central banks to implement negative interest rates when investors have the alternative of keeping a safe full of $100 bills. That seemed an abstruse point to some at the time, but the COVID-19 crisis has placed negative rates firmly on the policy agenda in several countries, albeit not yet in the United States.

Since Rogoff wrote, cash has been in retreat as a payment mechanism. In Sweden, for example, the demise of the paper krona seems within sight. The mobile payment system Swish dominates the small-denomination landscape. As anyone who has recently tried to buy a beer in Stockholm knows, you will remain thirsty if all you have is a wallet full of cash.

And the COVID-19 crisis has given people another reason to steer away from banknotes. It was widely reported that the virus could be transmitted through handling them, prompting many outlets to put up "no cash" signs. In my village, even the traveling fish and chip van will now accept only a contactless card. In fact, there is little or no validity in that scare story. The World Health Organization has said there is no evidence that currency notes transmit coronavirus. The virus lasts just as long on plastic cards, and Christine Tait-Burkard, an infectious disease expert at the University of Edinburgh, said that cash is not a vector of disease "unless someone is using a banknote to sneeze in."

But the damage was done, and in the first month of the crisis cash usage in the United Kingdom fell by over 60%. Transaction volumes halved. In a survey, nearly 75% of respondents said they expect to use cash less in the future.

That trend, which has been replicated across the developed world, has given a further boost to digital banking and non-bank payment system providers. Apple Pay and PayPal are doing well. Fintech neobanks have continued to expand their user base, though many question whether they have yet found a sustainable business model. Facebook's Libra currency is waiting in the wings, with its backers trying to persuade regulators that its model is safe and compliant with anti-money laundering protocols.

The further decline of cash has also given greater impetus to central banks' own work on digital currencies. Through banknotes, citizens and businesses have for centuries been able to hold a direct claim on the central bank. If cash were to disappear, is there not an argument for a central bank digital currency, whether wholesale, retail, or both? The Bank for International Settlements reports that several central banks are actively considering introducing one, though none has yet taken the plunge. The Swedish Riksbank may well be the first, with an e-krona ready to roll.

So, is a farewell to cash at hand? Will even the greenback go the way of all flesh?

The answer is not so clear. In the first place, while the number of transactions fulfilled through cash transfers has indeed been falling, even at the bottom end of the range, the volume of cash in circulation has in fact continued to rise in many countries. Since the end of last year, according to the BIS, the value of currency in circulation has increased by 8% in Italy, and 7% in the US. Precautionary holdings of cash have risen. It is not only drug dealers and tax evaders who see the attraction of cash as a store of value and who value privacy. Of the largest economies, only China has begun to see an absolute decline in the ratio of physical currency to GDP.

There are also signs of a political backlash against the withdrawal of cash handling facilities. The Bank of Canada has asked retailers to continue to accept cash, citing concerns about financial exclusion, as people without access to bank accounts and cards find themselves unable to shop. New York City, San Francisco, and the state of New Jersey have barred retailers from refusing cash. Even in Sweden, the Swishers are not having it all their way. An activist group called Kontantupproret (Cash Rebellion) is now campaigning to sustain poorer consumers' ability to use paper money. In the UK, the government has published an "access to cash" review, which recommends the mandatory maintenance of a large national fleet of ATMs, even though utilization is falling fast.

In sum, it may be too soon to write Dollar Bill's obituary. Demand for his services remains strong. It may make sense for central banks to offer digital services to nonbanks, perhaps partly to avoid the loss of seigniorage income, which would enrich Facebook, rather than governments, in a Libra-dominated world. But unless central banks wish also to enter the credit allocation business, they will want to avoid large-scale disintermediation of the banking system.

I suspect that, for the foreseeable future, we will live in a kind of mixed-economy payment system. Cash will continue to play a role, albeit a more modest one than in the past, alongside a variety of cards and direct digital transfers.